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October 18, 1999

Magalie Roman Salas, Esq.
Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, S.W.
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: *In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Southern New England Telecommunications Corporation, Transferor To SBC Communications Inc., Transferee, CC Docket No. 98-25*

Dear Ms. Salas:

On October 26, 1998, SBC Communications Inc. ("SBC") completed its merger with Southern New England Telecommunications Corporation ("SNET"). With the merger now nearly a year old, SBC is filing this report on the benefits of the merger, and on the companies' compliance with the four conditions in this Commission's Memorandum Opinion and Order¹ approving SNET's transfer of licenses and authorizations to SBC.

BENEFITS OF THE MERGER

In today's dynamic and rapidly evolving telecommunications marketplace, SNET needed the resources and backing of a much larger company in order to better serve its customers, to develop new and improved services, and to invest in and upgrade its network in a relatively small local market. As a result of its merger with SBC, SNET has the best of both worlds – a strong local presence and the backing of a company with the financial, technological, and network know-how to ensure that it has the telecommunications infrastructure needed to support economic growth and provide choice to consumers in Connecticut.

Since the merger closing date, SBC has made a significant number of improvements at SNET that have benefited the state of Connecticut and its economy,

¹ CC Docket No. 98-25, Application for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Southern new England Telecommunications Corporation, Transferor to SBC Communications Inc. Transferee, October 23, 1998 (hereinafter referred to as the "Merger Order").

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consumers, and the employees of SNET. Since the merger, SNET has instituted technological advances, improved customer service, delivered more products and services, increased charitable giving and community involvement, and increased the number of jobs and job opportunities for SNET employees. Clearly, without the merger, SNET could not have achieved all of these great benefits alone. Each of the benefits is discussed separately below.

SNET Will Have A State-of-the-Art Telecommunications Infrastructure

A high quality, state-of-the-art network infrastructure is fundamental to delivering the benefits of telecommunications to all consumers and telecommunications providers who rely upon SNET's network. With capital provided by SBC, SNET is planning to increase its capital commitment to grow and improve its statewide telecommunications network by approximately \$45 million in 1999. For example, SNET is deploying software and hardware upgrades that will enable its network to carry "broadband" services, like Digital Subscriber Line ("DSL"), so users can reach the Internet at speeds at least 20 times faster and up to 100 times faster than most dial-up modems. SNET is planning to itself introduce ADSL commercially in the year 2000, and currently has an ADSL trial underway in three wire centers to test this new technology. SNET recently filed its xDSL loop and collocation tariff to offer CLECs the ability to provide competitive xDSL services to consumers in Connecticut.

SNET Customer Service Has Improved

SNET recently won the J.D. Power & Associates award for the best local (August 4, 1999) and long distance (July 29, 1999) service in the country. This award reflects the direct benefit of SBC's commitment to customer service in SNET, and the fact that providing high quality customer service has always been the number one priority at SNET.

By increasing capital investment, hiring more employees with direct customer contacts, importing SBC's best practices to SNET, and fine-tuning SNET's existing practices, SBC will ensure that Connecticut customers continue to receive the highest quality service available in the industry.

As a result of the merger, SNET increased the number of outside plant installation and repair technicians, and supervisors, which has decreased the technicians/supervisor span of control ratio from over 19/1 to 14/1. Now, SNET technicians are installing new service at customers' homes in a matter of days, compared to over a week a year ago. Customers can contact SNET customer service representatives faster than ever, and more SNET repair technicians are dedicated full time to routine maintenance, which means fewer service outages.

Connecticut Consumers Have Access To More And Better Products and Services

With access to SBC's considerable research and development resources and its ability to develop new and improved services, SNET is now able to bring the latest in digital, data-based products to help businesses be more competitive and productive. SNET is about to introduce a new Virtual Private Network ("VPN") product which will make it possible for business customers to extend the reach of their corporate data network to business partners, satellite office locations, telecommuting, and mobile employees in a more secure and cost-effective manner. In addition, SNET will soon offer "Online Office" in 2000, enabling small to midsize businesses purchase DSL-based Internet connectivity, customer premises equipment, installation and maintenance – all in a "turn-key" package.

SNET is also increasing consumer choice in the packages of products and services available to residential consumers. SNET's penetration of Voice Mail, Call Waiting, and Caller ID services has increased by 24% since the merger. As a condition of the Connecticut Department of Public Utility Control's ("DPUC") decision approving the merger,² SNET has implemented a Lifeline Education Outreach Plan designed to identify and notify eligible recipients of the Lifeline Program. SNET added two Department of Social Services programs to the existing 14 eligible programs in the Lifeline Program Outreach. In July 1999, SNET mailed a Lifeline information letter to approximately 180,000 households.

SNET Has Increased Its Charitable Giving and Community Involvement

SBC, like SNET, recognizes the value of charitable giving and community involvement in the areas it serves. The merger has strengthened SNET's position as a major contributor to Connecticut's 169 communities and the overall economy of the state. For example, SNET is increasing its statewide charitable contributions by \$350,000 this year and the next two years for a total of over \$1 million – a 15% increase over pre-merger levels.

SNET committed \$1 million to Connecticut institutions of higher learning, including a \$500,000 donation to the University of Connecticut to support technological development. SNET is also funding \$500,000 in grants to Connecticut's two- and four-year colleges, universities and technical schools to strengthen computer literacy in the state.

SBC's philanthropy goes beyond dollars. SNET has donated over 1,500 computers and hundreds of fax machines to charities and non-profits, sponsored several new SeniorNet Learning Centers, extended free Internet access to every school and public library in the state, and supported a variety of U.S. military veteran-related programs throughout Connecticut.

² Docket No. 98-02-20, Joint Application of SBC Communications Inc. and Southern New England Telecommunications Corporation for Approval of a Change of Control, Sept. 2, 1998.

SNET Is Fulfilling Its Job Commitments To Connecticut

SBC's commitment to SNET and Connecticut is to grow and expand the business, while providing customers with the highest quality service possible. SBC committed to having at least 10,000 full-time employees by the year 2003. At the present growth rate, SNET will be at or near that number by the end of 1999 – three years ahead of schedule.

REPORT ON COMPLIANCE WITH CONDITIONS

The Commission conditioned its approval of the SBC/SNET merger on 4 specific conditions. The following is a report on SBC's and SNET's compliance these conditions.

1. SBC's and SNET's complete and continued fulfillment of the measures described in the Merger Order that are designed to ensure that the merger does not result in SBC providing interLATA services in its current region in violation of Section 271 of the Communications Act.

SBC and SNET have complied with this merger condition. Prior to merger closing, SNET (a) withdrew its certificates to provide interexchange service and the tariffs associated therewith from the SBC in-region states; (b) transitioned its "1+" long distance customers in the SBC in-region states to alternative interexchange carriers selected by those customers; (c) ceased carrying the interLATA calling card calls of its customers originating in the SBC in-region states; and (d) ceased carrying the prepaid calling card calls of its customers originating in the SBC in-region states.

SNET established a legal/regulatory team with responsibility for the process. This team, working with applicable subject matter experts and reporting to senior management, coordinated a number of time consuming and expensive activities crucial to achieving compliance with Section 271. They included (a) submission of filings where applicable to state regulatory commissions; (b) notification to "1 +" customers of the need to select alternative interexchange carriers of their choice and implementation of those choices; (c) negotiation of an arrangement with an interexchange carrier to carry interLATA calling card calls originating from the SBC in-region states (under which arrangement SNET receives no compensation for such calls) and implementation of that arrangement; (d) notification to all calling card customers of the arrangement with the interexchange carrier, including the mailing of stickers to be placed on the cards describing the changes to the card; and (e) negotiation with another interexchange carrier a similar arrangement covering prepaid calling card calls, including the addition of notices to all new cards informing customers of this change and the destruction of all cards in inventory not containing this notice.

In addition to the foregoing measures prior to the merger closing, SNET took down the interLATA links used to provide wholesale calling card and switched termination services to CLECs and interexchange carriers. These carriers were required to obtain their own connections to SNET's facilities using the interexchange carriers of their choice. Similarly, SNET established procedures in its wholesale operator service

business requiring any customers operating in the SBC in-region states to obtain their own interLATA links to SNET's operator services facilities. Finally, in December 1998, during the course of an investigation by SBC and SNET of Section 272 compliance, it was discovered that although SNET had ceased marketing and billing conference calling services within the SBC in-region states prior to the merger closing date, 800 access links to these services had remained in place. SNET removed these 800 access links to its conference calling service from SBC's in-region states.³

2. SBC's and SNET's maintenance of SNET's current treatment of Metrocall and other pagers pending the resolution of Metrocall's complaint against SBC.

SBC and SNET have complied with this merger condition. The "current treatment of Metrocall and other pagers" in question involves the imposition of transport and termination charges on facilities used to interconnect paging providers and incumbent LECs. Essentially, Metrocall complained that, unlike SNET, SBC charges paging providers for facilities used to interconnect its network with paging providers, but fails to pay paging providers for terminating SBC's traffic. Metrocall argued that such charges violate section 51.703(b) of the FCC's rules. SBC contends, among other things, that while section 51.703 purports to implement section 251(b) of the Federal Telecommunications Act of 1996 ("1996 Act"), that section only deals with "reciprocal compensation" between local exchange carriers and commercial mobile radio service providers, and that there can be no reciprocal compensation when all traffic flows one way.

Nonetheless, prior to merger closing, SBC and SNET voluntarily committed that SNET would maintain its practice of not imposing these charges during the pendency of Metrocall's formal complaint against SBC on this issue. See FCC File No. E-98-15. In compliance with this condition since the complaint is still pending, SNET has neither imposed such charges on paging companies nor included such charges in any interconnection agreement that it has entered into with a paging company.

³ On June 28, 1999, the Commission adopted and released an Order, In the Matter of SBC Communications Inc., FCC 99-153, concluding an informal investigation into potential violations of Section 271 and 272 in connection with the SNET merger, and approved a Consent Decree terminating the matter. Therein, the Commission found that "there are no substantial and material questions of fact that SBC possesses the basic qualifications, including its character qualifications, to hold or obtain any FCC licenses or authorizations."

3. SBC's and SNET's commitment not to implement any arrangement that SNET Diversified may negotiate with foreign carriers to route U.S.-inbound switched traffic into SBC's in-region states via SNET Diversified private lines unless and until the Commission approves these arrangements during the period of time pending the adoption of final rules in the *ISP Reform* proceeding.⁴

SBC and SNET have complied with this condition. This condition relates to the practice of "grooming," where international private lines are used to route switched traffic to particular geographic locations. As explained in the Merger Order, it has been argued that the "grooming" of U.S.-inbound traffic raises a potential for anticompetitive effects, which is currently being examined by the FCC in the ISP Reform Proceeding.

Prior to merger closing, SBC and SNET voluntarily committed that any agreements that SNET Diversified, which holds a global resale authorization under IRTC-96-538, enters into to "groom" U.S.-inbound traffic into the SBC in-region states would be subject to prior FCC approval. This condition would remain in effect until the adoption of final rules in the ISP Reform Proceeding, which is still pending. However, SNET Diversified has not had to request any such FCC approval, because it has not "groomed" U.S.-inbound traffic into the SBC in-region states since the close of the merger. Indeed, SNET Diversified has never engaged in such "grooming."

4. SBC's and SNET's continued good faith implementation of the restructuring of local exchange operations in Connecticut in accordance with the requirement of the DPUC.

SBC and SNET made a "good faith" effort to implement the restructuring of SNET's local exchange operations in accordance with the requirements of the DPUC. However, as a result of recently enacted changes in Connecticut law described below, SBC and SNET can no longer continue to implement this restructuring.

This condition relates to the DPUC decision approving an SNET proposal to split its retail and wholesale operations into two separate entities.⁵ SNET originally proposed a retail/wholesale split to the DPUC, because it believed that such a restructure would improve its ability to differentiate its retail products and services in terms of price, product innovation, or service, and to attract wholesale business by its CLEC customers. The DPUC approved SNET's proposal with two major modifications – a "fresh look" requirement for all noncompetitive telecommunications contracts,⁶ and the balloting of local residential and small business customers. AT&T, MCI, and others strongly opposed the retail/wholesale split, and neither AT&T nor MCI would commit to participate in the local service ballot.

⁴ Notice of Proposed Rulemaking, FCC 98-190, August 6, 1998.

⁵ Docket No. 94-10-05, DPUC Investigation of the Southern New England Telephone Company for Affiliate Mailers Associated with the Implementation of Public Act 94-84, June 25, 1997.

⁶ The "fresh look" required SNET to open all multiyear noncompetitive contracts without the imposition of a termination charge for approximately five months.

After SBC and SNET announced their proposed merger in January 1998, SNET continued to implement the retail/wholesale split, and continued to participate in technical meetings hosted by the DPUC to implement its decision. SNET spent many hours planning the process flows and procedures for the local service ballot, and continued to move employees to SNET America, Inc., what was to become SNET's retail operations. By January 1999, SNET America, Inc. had approximately 45 employees in sales, marketing, and customer service.

After the DPUC rejected its efforts to derail the restructure of SNET's local exchange operations, MCI filed an appeal of the DPUC's decision in Connecticut Superior Court in August 1997. AT&T and MCI both also filed suit against SNET and the DPUC in federal district court, challenging the restructure under the 1996 Act. In September 1998, the federal district court found that the restructure did not violate the 1996 Act, and in October 1998, the Connecticut Superior Court found that the retail/wholesale split did not violate any state laws. AT&T appealed the federal district court decision to the U.S. Court of Appeals for the Second Circuit and SNET filed a cross appeal. In December 1998, AT&T informed SNET that it was withdrawing its appeal as a result of a change in strategy.

Having failed in their attempt to stop SNET from restructuring its local exchange operations before the DPUC and in state and federal court, AT&T and MCI took their battle to the Connecticut legislature in January 1999. They formed a coalition to support legislation – Senate Bill 1299 – that would, in effect, nullify the restructure by putting in place certain operating rules and conditions. These conditions included, inter alia, restrictions on affiliate marketing and billing of services, a prohibition on entering into contracts with business customers, and a requirement to unbundle and price services beyond that required by federal law. In a subsequent amendment – Substitute Senate Bill 1299 – these restrictions were eliminated and replaced with language which precluded the DPUC and SNET from implementing the DPUC's decision approving the retail/wholesale restructure.

SNET vigorously opposed passage of the Senate bill, but lost in that effort. Since the bill was strongly supported by the AT&T/MCI coalition, the Energy and Technology Committee with jurisdiction over this issue, the Office of Consumer Counsel, and the DPUC, it was unlikely that SNET would have been successful in convincing the House to defeat the bill. Thus, SNET supported amendments to modify the bill. Ultimately, it passed the House, and on June 29, 1999 was signed into law as Public Act 99-222.

Public Act 99-222 prohibits the Southern New England Telephone Company from withdrawing from the retail provision of a telecommunications service until July 2001, and then only if that retail service is found to be competitive by the DPUC.⁷ In addition, it prevents the DPUC from ordering a ballot that includes an allocation or assignment of customers. It is this component of the Act that prevents SBC and SNET from implementing the restructure of SNET's local exchange operations in Connecticut.

⁷ For a service to become competitive SNET must satisfy eight criteria set forth in Conn. Gen. Stat. §16-247f.

Although SBC and SNET can no longer continue to implement this condition, the Connecticut legislature has provided the CLECs in Connecticut with precisely what they lobbied for. First, Public Act 99-222 provides CLECs with more time to prepare to compete in the local market. Second, it imposes requirements that this Commission has found necessary to the opening of local markets to competition, and that CLECs claim they need before they can enter the local market in Connecticut. Namely, it requires the DPUC to establish quality of service standards, and performance measurements by April 2000, to set rates for unbundled elements and combinations thereof by July 2000, and to certify that OSS for unbundled elements and combinations of unbundled elements are fully operational at commercial volumes by November 2000.

Since SBC and SNET are now prohibited by state law from implementing the retail/wholesale restructure of SNET's local exchange operations, SNET America, Inc. will begin notifying customers approximately 14 days after the filing of this letter that it will be exiting the local exchange market. All local exchange services will continue to be offered by Southern New England Telephone Company, and SBC and SNET will now focus their good faith efforts on satisfying the requirements of Public Act 99-222.

In the final analysis, while SBC and SNET were operationally preparing and poised to implement the local exchange service restructure as directed by the DPUC, it became clear that the CLECs were not ready to and did not intend to aggressively enter the local market in Connecticut. No restructure of local exchange operations, nor any other mandated federal or state requirement, will result in an open local market until the CLECs are ready and willing to compete in that market.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Priscilla Hill-Ardoin", with a long, sweeping horizontal line extending to the right.

Priscilla Hill-Ardoin
Senior Vice President-FCC

cc: Chairman Kennard
Commissioner Ness
Commissioner Tristani
Commissioner Powell
Commissioner Furchtgott-Roth
Larry Strickling
Christopher Wright